

October 5, 1993

The Honorable Norman B. Rice, Mayor
The City of Seattle
Seattle, Washington 98104

Seattle City Councilmembers
The City of Seattle
Seattle, Washington 98104

Dear Mayor Rice and Councilmembers:

The Office of City Auditor conducted a survey review of the Seattle Municipal Court's contracting for collection services. Our primary purpose during the survey was to determine if the Court had sufficient oversight of Continental Credit Services, Inc. (CCSI) and if the Court's contract with CCSI had any ramifications that the Court and the City Council might currently not recognize or may not be within City policy. The Municipal Court's response to our report is attached (Addendum A).

We found that the Court has managed its collection contract with proper oversight. It has established an internal control process to provide oversight of the contractor and to identify and address problems. Our review of 25 disputed tickets found that the majority of disputed tickets resulted from persons questioning the legitimacy of their fines. The contractor's initial collection fees appears reasonable since the contractor was required to deal with a large backlog of cases. The Court anticipates the 1993 collection contract will have a lower fee since the second contract will not include a backlogged case load. Also, for negotiating the second contract, the Court now has historical data on the recovery rate, which the Court did not have in negotiating the first contract. This allows the Court and the contractor more certainty in estimating the potential compensation for the contractor.

While our survey review focused primarily on the Court's oversight of CCSI, we did identify three areas of the collection effort that should be improved. Those areas concern correspondence, input errors, and collection on rental cars.

- The Court and the contractor's letter in some cases lacked clarity.
- Court employees made input errors in entering data into the Court's computer.
- The Court's process for collecting on parking tickets on rental cars is laborious.

To improve these areas, we recommend that:

- Both the Court and CCSI improve their correspondence for increased clarity.
- The Court continuously strive to decrease input errors of data entered into the computer. Subsequent to the occurrence of the mistakes we reviewed, the Court implemented new internal control procedures that should detect and correct such errors.
- The City should seek the same legal authority as in Alaska to collect the parking ticket fees from the rental car agencies.

The Court's process for collecting fines and oversight of CCSI has evolved over the last three years and has improved. The Court has strived to improve its systems and has developed a great deal of expertise. We encourage other City departments to contact the Court staff for advice and assistance in developing future collection efforts and/or contracting for collection services.

We are sending copies of this report to Municipal Court. We will also make copies available to others upon request. If you have any questions concerning this report, please contact me at (206) 233-0088. In the back of our report, we have an evaluation form. We encourage everyone who reads this report to fill out this form. The information will help us improve our work.

Sincerely,

Nora J.E. Masters
City Auditor

Enclosure

Table of Contents

Purpose	1
Scope	1
Background	1
Principal Findings	2
• Municipal Court Has Adequate Internal Control Process for Oversight of Contractor	3
• Review of 25 Cases Shows Room for Improvement	3
• Initial Collection Fee Appears Reasonable	5
Conclusion	6
Recommendations	6

Abbreviations

CCSI Continental Credit Services, Inc.

RFP Request for Proposal

CONCLUSION OF SURVEY REPORT

REVIEW OF MUNICIPAL COURT'S COLLECTION CONTRACT

PURPOSE

The Office of City Auditor conducted a survey review of the Seattle Municipal Court's contracting for collection services. Survey reviews are undertaken to determine if sufficient issues are apparent to warrant a full scale performance review. Our primary purpose during the survey was to determine if the Court had sufficient oversight of Continental Credit Services, Inc. (CCSI) and if the Court's contract with CCSI had any ramifications that the Court and the City Council might currently not recognize or may not be within City policy. We conducted the survey between June 4, and July 23, 1993.

SCOPE AND METHODOLOGY

During our survey, we interviewed officials of the Court and CCSI and reviewed their files and procedures. We reviewed the Request for Proposals (RFPs) issued in 1990 and 1993 and reviewed the proposals submitted in 1993. We worked with the contractor and the Court to develop a flowchart of how a ticket is processed after it is issued. To determine why some tickets are disputed, we selected and examined 25 tickets from the Court's 1992 disputed tickets files. We interviewed officials at other Courts in Washington State to determine the fees charged by other collection agencies.

BACKGROUND

In January 1990, the Court issued an RFP seeking a vendor to provide collection services for the Court. The Court evaluated each proposal on the basis of the contractor's performance capability, experience, ability to meet the City's requirements, and the reasonableness of the proposed collection fee. The Court signed a two year contract, with one year renewal, with CCSI in November 1990.

The Court is in the process of selecting a contractor to provide collection services for the next two years. In May 1993, the Court issued its second RFP for collection services. The Court received six proposals, five of which made it through the initial screening process. Similar to the 1990 RFP process, the Court will evaluate each proposal on the basis of the contractor's performance capability, experience, ability to meet the City's requirements, and the proposed collection agency fee. The Court expects to sign the second contract by September 30, 1993.

The types of delinquent judgments that the Court has referred to CCSI during the last three years include:

- The entire backlog of almost 500,000 delinquent parking, traffic, and ordinance violation citations and/or cases dating back to 1983.
- All parking, traffic, and ordinance violation citations that are 45 days from the date of the violation and a hearing was not requested or a payment was not made.
- Every case that had a hearing scheduled if the defendant failed to appear for the hearing or request a new hearing within 100 days of the hearing or pay the outstanding balance.

In February 1993, the City Council requested that the Office of City Auditor conduct a preliminary survey review of the Court's collection contract in response to citizen complaints and local news stories. The Court officials also agreed that the review would be beneficial since they anticipate signing their second collection contract by September 30, 1993.

PRINCIPAL FINDINGS

The Court has managed its collection contract with proper oversight. It has established an internal control process to provide oversight of the contractor and to identify and address problems. Our review of 25 disputed tickets found that the majority of disputed tickets resulted from persons questioning the legitimacy of their fines. The Contractor's initial collection fees appears reasonable since the contractor was required to deal with a large backlog of cases.

Municipal Court Has Adequate Internal Control Process For Oversight of Contractor

The Court provides oversight of CCSI through weekly meetings with CCSI and a payment and reconciliation process which validates the information provided by CCSI. During the weekly meeting, CCSI provides the Court with management reports describing the status of cases referred to CCSI. The Court uses these meetings to discuss any concerns with CCSI over their handling of the Court account and to discuss problems with individual cases which may suggest systemic problems. In addition to the weekly meeting, Court personnel talk with CCSI employees on a daily basis to resolve problems for individual cases. The Court also provides independent checks on the data provided by CCSI to ensure

its accuracy. The Court's Senior Accountant for Internal Control Review has her own data base to independently calculate, track and reconcile the data provided by CCSI.

Review of 25 Cases Shows Some Room for Improvements

We examined 25 disputed tickets to identify types of problems with the Municipal's Court's collection process. Our review did not find any serious problems with the Court or the contractor. We found that in a majority of the disputed tickets, defendants questioned the legitimacy of their fines and the Court replied with further information on the nature of the violation and the City's policy on fines. We did identify three problem areas in the Court's performance.

- The Court and the Contractor's letter in some cases lacked clarity.
- Court employees make some input errors in entering data into the Court's computer.
- The Court's process for collecting on parking tickets on rental cars is laborious.

Letters Lack Clarity

Some of the 25 tickets we reviewed might not have been disputed, if the Court's and CCSI's correspondence was clearer. For instance, when an individual pays the initial violation amount after the due date, a default penalty is added and the individual owes a late fee. A notice is sent informing the individual that they still owe debt. Even though this notice does show that a default penalty was assessed the credit for the previous payment is not shown. Thus, it may be confusing to that individual as to why they still owe debt, since they paid the original ticket. For example, in one case a man received a \$20 ticket. He paid the \$20 ticket late, after a \$25 default penalty was added to his account. The Court credited the \$20 to his account, but the \$25 default penalty remained unpaid. The Court then referred the individual's account to CCSI for collection. CCSI sent a bill to him showing that he owed a \$25 principal amount plus the collection agency fee. CCSI's notice did not make reference to the \$20 being credited to his account nor did it explain that the \$25 now owed was the default penalty for paying the ticket late. The defendant sent a letter to the Court expressing that he was incorrectly billed for a ticket that he had already paid and that he couldn't understand why CCSI was charging him \$25 when the ticket was \$20.

Computer Input Errors Cause Some Problems

Some of the disputed tickets we reviewed resulted from the Court sending a case to CCSI by mistake. In some cases, the mistake was caused when a Judge dismissed a case but Court staff did not enter the dismissal into the Court's computer. In another case, a defendant paid the fine, but the payment was not

entered into the system correctly. Subsequent to the occurrence of the mistakes we reviewed, the Court has implemented new internal control procedures that should detect such errors and ensure that such errors are corrected in a timely manner.

Sometimes a defendant pays a debt between the time when a collection notice was prepared for mailing and prior to being received by the defendant. Thus, when the defendant receives the notice, they might call or write the Court to complain about the bill. When a defendant disputes a collection effort from CCSI, the Court researches the case to determine whether the defendant's concerns are valid. If the Court determines the defendant does not owe the debt, the case is recalled from CCSI. CCSI does not receive any compensation for cases the Court recalls.

Collecting Parking Fines on Rental Cars laborious

In three of the 25 disputed cases we reviewed, the defendant used a rental car and denied being responsible for the debt. Parking tickets on rental cars provide extra work for the Court because they have to identify the person who rented the car at the time the car was ticketed and then send notices to that person. Currently, the Court is required by law to change the liability for a parking ticket from the rental agency to the person who rented the car if the rental agency provides the Court with a copy of the lease agreement showing who rented the vehicle at the time of the violation. In practice, when a ticket is not paid, the Court sends out the default notice to the registered owner of the vehicle, in this case a rental car agency. The rental car agency then notifies the Court that the car was rented at the time it was ticketed and provides a copy of the lease agreement. Under current state statute, this absolves the rental car agencies of responsibility for the ticket. The Court then obtains the name of the person who rented the vehicle from the copy of the lease agreement and mails a default notice to that individual.

Initial Collection Fee Appears Reasonable

CCSI collected almost \$4 million for the Court in 1992. For this work, CCSI's gross revenues from the Court business was approximately \$1.6 million. CCSI collects most of its Court revenue from an "add-on" fee equal to 45 percent of the total amount due the Court. The add-on fee is added to the amount the debtor owes the court. For example, when a defendant receives a \$20 parking ticket and does not pay it within 15 days, a default penalty of \$25 is added and the defendant owes the Court \$45. If the defendant does not pay the ticket within 45 days, or request a hearing, the debt is referred to CCSI. CCSI then adds a collection fee of \$20.25 (45 percent of \$45) to the ticket, bringing the total owed to \$65.25, and starts collection activities, such as telephoning the defendant and mailing notices. When the defendant pays CCSI \$65.25, CCSI pays the Court \$45 (the original ticket fee plus default penalty) and keeps its \$20.25 collection fee.

We contacted other courts as an indicator of whether the Court's fee for collection was reasonable (See Table 1). While the collection agencies servicing the other courts charge an add-on fee of 25 to 50 percent, CCSI currently charges 45 percent. In CCSI's initial proposal, they set a collection add-on fee of 33 percent for tickets on Washington State cars. However, during the negotiation process the Court increased the uncompensated workload demand, such as finding the new addresses of people who have moved and identifying the owner of out-of-state cars. As a result, CCSI increased their add-on fee from 33 to 45 percent. The 45 percent add-on fee, in part, reflects the large workload demand required by the backlog of cases that the initial contractor would have to process for collections. The Court had almost 500,000 backlogged cases. The Court anticipates the 1993 collection contract will have a lower add-on fee since the second contract will not include a backlogged case load. Also, for negotiating the second contract, the Court now has historical data on the recovery rate, which the Court did not have in negotiating the first contract. This allows the Court and the contractor more certainty in estimating the potential compensation for the contractor.

TABLE 1: Comparison of Collection Agencies Fees

<u>Court</u>	<u>Collection Agencies Add-on Fee</u>
Evergreen District Court	33%
Tacoma Municipal Court	25 to 30%
Olympia Municipal Court	40%
Spokane Municipal Court	40%

Spokane County Court	30% to 40%
Seattle District Court	40% to 50%
Seattle Municipal Court	45%

CONCLUSION

We did not uncover any issues that would cause the Court to delay or rethink the design and signing of its second collection contract nor did we uncover any internal control weaknesses that would suggest the need for a full performance audit of Court's collection effort at this time.

We found that the Court's process for collecting fines and oversight of CCSI has evolved over the last three years and has improved. The Court has strived to improve its systems and has developed a great deal of expertise. We encourage other City departments to contact the Court staff for advice and assistance in developing future collection efforts and/or contracting for collection services.

RECOMMENDATIONS

While our survey review focused primarily on the Court's oversight of CCSI, we did identify three areas of the collection effort that should be improved. Those areas concern correspondence, input errors, and collection on rental cars.

Correspondence. Both the Court and CCSI could improve their correspondence for increased clarity. We found several notices sent to defendants that did not provide sufficient information to enable the defendant to understand why they owed certain amounts beyond the original ticket amount. Other letters to defendants that we reviewed lacked clarity. The Court should improve the quality of its correspondence.

Decrease Input Errors. While we did not find evidence of a large amount of input errors, the Court needs to continuously strive to decrease input errors of data entered into the computer.

Collection on Rental Cars. The Court could collect more revenue, and spend less time and resources following-up on tickets issued to rental cars, if it held rental car agencies liable for parking tickets. In Anchorage, the Anchorage Parking Authority collects the parking tickets fee directly from the rental car agencies and then the agencies pass the fine to their customers through the customer's credit card.

As of May 17, 1993, the Court had almost \$300,000 in unpaid parking tickets for rental cars. The current system, as required by law, requires the Court to spend extra processing time, including one staff person spending half of their time dealing with rental car issues. In Alaska, state laws allows the municipalities to collect parking ticket fees directly from the rental car agencies. The City should seek the same legal authority as in Alaska to collect the parking ticket fees from the rental car agencies.